

TEACHERS' RETIREMENT BOARD

SUBCOMMITTEE ON CORPORATE GOVERNANCE

SUBJECT: Financial Market Reform Status Review

ITEM NUMBER: 4

ATTACHMENT(S): 2

ACTION: _____

DATE OF MEETING: May 7, 2003

INFORMATION: X

PRESENTER(S): Janice Hester Amey

Executive Summary

The legislative section of the Financial Reform Matrix refers to a piece of legislation regarding deferred compensation, H.R. 1776. This bill would reduce the vesting schedules of defined contribution plans, increase diversification options, and education for employees.

The active section of the Matrix is labeled as "Attachment 1;" the completed section is labeled as "Attachment II."

The new Chair of the PCAOB has been announced. The Chair is William McDonough, recently the President and Chief Executive Officer of the Federal Reserve Bank of New York.

IMPLEMENTATION PLAN REGARDING FINANCIAL MARKET REFORM

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS	COMMENTS
Director Independence/Disclosure					
1) Executive Compensation	Research and recommend standards for better disclosure	Proactive communication of CalSTRS' views on the importance of plain language descriptions and heightened disclosure	CalSTRS CalPERS NASD NYSE SEC NACD AICPA CII Nat'l Legislatures/ Regulatory/ State Regulatory/ Legislative bodies Administration	Research in progress. Loans to executives prohibited in Sarbanes-Oxley. This practice is consistent with CalSTRS guidelines on executive compensation.	No current legislation on this topic
2) Improve Communication with Shareholders	Research areas of cooperation	Appointed to CII-NACD Task Force on Improving Shareholder Communications	Ten CII members and a NACD Working Group of Ten	In Progress	
NOTE 1: All legislation introduced during the 107th congress expires when that session ends. As of the start of this year we are beginning the 108th Congress. Therefore all bills that we were tracking last year have expired, and must be re-introduced as new legislation if they are to be bills again this year.					
NASD = National Association of Securities Dealers NYSE = New York Stock Exchange SEC = Securities and Exchange Commission NACD = National Association of Corporate Directors AICPA = American Institute of Certified Public Accountants CII = Council of Institutional Investors		2003 Legislation: Federal Legislation: H.R. 1776 (Portman-Cardin)		Regulatory: SEC Regulatory Efforts Proposed NYSE Guidelines NASDAQ - National Association of Securities Dealers Automated Quote System	
2003 Legislation:					
State Legislation: none yet					

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS	COMMENTS
Deferred Compensation - Defined Contribution Plans					
1) Employees will have a choice on whether to invest in a company's defined contribution plan	Support choice on whether to invest in a company's defined contribution plan.	Support selected federal legislation/regulatory/ administration proposal that will codify this choice.	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, Nat'l Legislatures/ Regulatory/ State Regulatory/ legislative bodies, Administration, Department of Labor, PBGC	<p>Sarbanes-Oxley requires 30 day written notice in advance of black-out periods.</p> <p>Executives not allowed to trade during black-out periods.</p> <p>Fiduciary duty specified for defined contribution plans to be that of E.R.I.S.A.</p>	No current legislation on this topic
2) Employees will have a choice over the form of employer/company's matching contribution	Support choice over the form of employer/company's matching contribution.	Support selected federal legislation/regulatory/ administration proposals that will codify the choice over the form of employer/ company's matching contribution.	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, Nat'l Legislatures/ Regulatory/ State Regulatory/ legislative bodies, Administration, Department of Labor, PBGC	<p>Sarbanes-Oxley requires 30 day written notice in advance of black-out periods.</p> <p>Executives not allowed to trade during black-out periods.</p> <p>Fiduciary duty specified for defined contribution plans to be that of E.R.I.S.A.</p>	

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS	COMMENTS
Deferred Compensation - Defined Contribution Plans					
3) Limit employer stock holdings in employee defined contribution plans to 10% or less unless employee requests the company to waive the cap and allow the employee to allocate up to 100% of her defined contribution plan to company stock	Support default cap as long as it allows employee to choose whether to increase investment in company stock	Support selected federal legislation/regulatory/administration proposal to set a default cap (10% or less unless employee requests waiver). Not directly addressed on national level.	CaISTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, Nat'l Legislatures/Regulatory/ State Regulatory/ legislative bodies, Administration, Department of Labor, PBGC	Under consideration	H.R. 1776: This bill will reduce the required vesting schedule for all contributions made by employers into defined contribution plans (such as 401(k)s) so that these dollars more quickly become the property of the employee. This bill will also provide employees with new rights to diversify company stock contributed to their 401(k) accounts after either 3 or 5 years of service (depending on the nature of the contribution).
4) Reduce or eliminate corporate restrictions on employee liquidation of company stock	Support easing of restrictions on employee liquidation of company stock and increased education regarding the provision.	Support the reduction/elimination of restriction on employee liquidation of company stock.	CaISTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, Nat'l Legislatures/Regulatory/ State Regulatory/ legislative bodies, Administration, Department of Labor, PBGC	Under consideration	
5) No record keeper transition/change or resulting blackout period if company stock has declined 30% over the previous 60 days. In addition, companies/ employers should give 30 days notice prior to any record keeper transition/ change	Support the restriction of record keeper changes and any resulting blackout period if company stock has declined 30% or more over the previous 60 days. Support efforts to reduce length of any blackout period. Employees should also receive increased education about this provision.	Support record keeper transition restrictions. Not currently addressed on the national level.	CaISTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, Nat'l Legislatures/Regulatory/ State Regulatory/ legislative bodies, Administration, Department of Labor, PBGC		No current legislation on this topic

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS	COMMENTS
Deferred Compensation - Defined Contribution Plans					
6) Support, in concept, selected legislative efforts to protect retirement security	Support selected legislative efforts to protect retirement security that address issues presented here.	Support selected legislative efforts to protect retirement security.	CaISTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, Nat'l Legislatures/Regulatory/State Regulatory/legislative bodies, Administration, Department of Labor, PBGC		No current legislation on this topic

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS	COMMENTS
Accounting Standards					
1) Improve Accounting Industry Oversight/Regulatory and Enforcement Powers	Support the improvement of independent oversight of the accounting industry by the Securities and Exchange Commission.	<p>Support greater oversight by the SEC. Current proposals want the private sector to pay for an oversight arm of the SEC, but want the agency to be independent of the accounting profession/industry; may not be possible. All proposals would give the oversight body subpoena and disciplinary power. Currently being reviewed legislatively.</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p> <p>Send Letters of support to House-Senate Conferees</p>	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, Nat'l Legislatures/Regulatory/State Regulatory/legislative bodies, Administration	<p>Letter sent to SEC on 4/30/02. Senator Sarbanes letter also references this issue.</p> <p>Institutional investors being contacted; also outreach to users of financial statements.</p> <p>Letters to oversight bodies sent on 4/30/02.</p> <p>Letters sent to House-Senate Conferees on 7/18/02.</p> <p>CIO appeared on Bloomberg Financial News 7/02.</p>	No current legislation on this topic

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS	COMMENTS
Accounting Standards					
2) Increase mandatory liability limits for external auditor firms	Support the increase of liability limits for external auditor firms, although it is recognized that an independent auditor's report is no guarantee that a company will prosper.	<p>Support increased liability limits for external auditor firms. Not addressed by others yet; seek buy-in from other investors, as well as SEC, appropriate legislative/ regulatory parties.</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, Nat'l Legislatures/ Regulatory/ State Regulatory/ legislative bodies, Administration	PCAOB will determine this issue once established.	

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS	COMMENTS
Accounting Standards					
3) Broader disclosure of client company's entrance into forward equity contracts	Support increased disclosure and information regarding companies' risk with respect to forward equity contracts as it relates to the underlying capital structure	<p>Support broader disclosure regarding risk of company's entry into forward equity contracts. Seems to be addressed in the accounting standards, may need more flexible language. Not addressed by others yet. Further research is needed.</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	CaISTRs, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, Nat'l Legislatures/Regulatory/State Regulatory/legislative bodies, Administration	Research in progress	No current legislation on this topic

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS	COMMENTS
General Governance					
1) Develop general guidelines for a governance system	Support the active dissemination of general governance guidelines and a best practices of corporate governance	<p>Enhance director independence standards; board committee standards. Require all review committees to be comprised entirely of independent directors.</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	CaISTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, Nat'l Legislatures/Regulatory/State Regulatory/legislative bodies, Administration	<p>Sent copies of CaISTRS guidelines to NACD, CII, and AICPA.</p> <p>Met with workplan companies on governance matters.</p> <p>Adopted Investor Protection Principles as part of CaISTRS guidelines.</p>	No current legislation on this topic
2) Establish minimum corporate governance standards	Addressed above	<p>Eliminate broker voting; support CII, CalPERS efforts on this. Seek buy-in of others in the proxy process, especially corporations.</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	CaISTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, Nat'l Legislatures/Regulatory/State Regulatory/legislative bodies, Administration	Met with investment managers to discuss Investor Protection Principles: BGI, BatteryMarch, Delphi, Lazard Freres, Marvin & Palmer, Putnam, SSgA	

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS	COMMENTS
General Governance					
3) Reform the Private Securities Litigation Reform Act of 1995 (PSLRA)	Support reform of the Private Securities Litigation Reform Act of 1995 as it relates to liability standards for independent auditors.	<p>Support reform of the Private Securities Litigation Reform Act of 1995 with respect to joint and several liability. Seek buy-in of others in the securities litigation area, such as CalPERS and other institutional investors.</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, Nat'l Legislatures/Regulatory/State Regulatory/legislative bodies, Administration	Research in progress	
4) Adopt Investor Protection Principles	Incorporate into Financial Responsibility Criteria for Corporate Investments.	Disseminate Principles to CalSTRS brokers and investment managers; conduct annual compliance review.	CalSTRS, CalPERS, STO.	Implementation plan has been developed. Initial letters to external relationships were sent October 2002.	

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS	COMMENTS
General Governance					
5) Sworn Statements by CEOs and CFOs	The CEOs and CFOs of 947 public companies were required to file sworn statements with the SEC by August 14, 2002. These statements were to attest to the accuracy of the companies' most recent annual and quarterly financial reports. Investments staff screened the SEC's list against the constituents of the Russell 1000 benchmark.	<p>Send Letters of support to Congressmen Daschle & Lott</p> <p>Send letters of support to Congressmen Royce & Cox</p>	CalSTRS, SEC	<p>553 issues within the Russell 1000 (actually 991 companies) provided certifications to the SEC, 91 did not, and 347 were not required to provide certifications. In percentages, 85.9% of companies required to certify within the Russell 1000 did so. Overall, that is 55.8% of the R1000.</p> <p>Letters sent to Congressmen Daschle & Lott on 7/3/02.</p> <p>Letters sent to Congressmen Royce & Cox on 7/23/02.</p>	No current legislation on this topic
6) Reincorporations	Support shareholder resolutions calling for reincorporation.	Solicitation campaign, public relations effort to increase support for resolutions.	Tyco Intl., Nabors Industries, McDermott, and Ingersoll-Rand Co.; AFSCME, CalPERS, State of New York, NYCERS, State of Connecticut	In Progress	

CaISTRs FINANCIAL MARKET REFORM - COMPLETED ITEMS

CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	STATUS
Issue: Director Independence/Disclosure		
1) Audit Committee Independence		
Amend Financial Responsibility Criteria for Corporate Investments, Section B, 'Board of Directors', by adding 3A: "It is concluded that since the Audit Committee is a subset of the entire Board of Directors, the performance of the Audit Committee is the responsibility of the entire Board of Directors. The Board of Directors must provide active and independent oversight of all of its review committees, such as Audit, Nominating, Compensation, and Governance. All persons who serve on Audit Committees must be unaffiliated, independent directors, whose only material relationship to the company is the directorship. In recognition of the unique expertise and time commitment required for the Audit Committee, CaISTRs supports the view that members of the Audit Committee should receive greater compensation than other Board Committees. The Board of Directors should also consider limiting the term of Audit Committee service, by automatic rotation or other methods."	<p>Proactive communication of CaISTRs' views on the importance of Audit Committee independence</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII*</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	<p>Guidelines amended on 04/03/02; 1,583 "no" votes cast by CaISTRs on ratification of auditors as of FY '02.</p> <p>Letters sent to oversight bodies on 04/30/02</p> <p>Letters sent to: SEC, NYSE, NASD, NACD through July '02.</p> <p>CEO gave speech to California Chamber of Commerce on 04/16/02--matrix highlighted</p> <p>Institutional investors being contacted. Meeting with CalPERS scheduled for 04/29/02</p> <p>Contacted State of Florida, NYCERS, NY State, TIAA CREF, and State of Pennsylvania.</p> <p>CaISTRs issued press release; CII highlighted Subcommittee agenda item in April 18th Newsletter</p> <p>CEO certification of Russell 1000 companies required on 8/14/02; 85% complied. Criteria included \$1.2 B revenue for FY; bankruptcies, extensions, reduced the number.</p>

CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	STATUS
Issue: Director Independence/Disclosure		
2) Audit Committee Authority/Responsibility		
Amend the Financial Responsibility Criteria for Corporate Investments, Section A, 'Auditors' by replacing subheading 1 with: "The Audit Committee has a unique role in the capital markets and the overall governance structure. The Audit Committee shall have at least 3 members and no more than 5. The Audit Committee shall adopt a formal, written charter and provide a report that references the charter and disclosure, in the company's annual report/proxy statement whether the Audit Committee has complied with its charter responsibilities. Any amendments to the Audit Committee charter shall be reported to the shareholders in the annual report/proxy statement. The Audit Committee members must have full access to company financial documents. The Audit Committee shall regularly evaluate the relationship between management and the external and internal auditors. The Audit Committee shall have responsibility and authority to select, retain/replace and evaluate the external auditor, including any issues that may impair the external auditor's independence and direct the scope of the duties to be performed. The Audit Committee and the Board of Directors, as the fiduciary representatives of shareholders, are the ultimate authority to which the external and internal auditors are accountable."	<p>Proactive communication of CalSTRS views on importance of Audit Committee qualifications</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	<p>Guidelines amended on 04/03/02; 1,583 "no" votes cast by CalSTRS on ratification of auditors as of FY '02</p> <p>Letters sent to oversight bodies on 04/30/02</p> <p>Letters sent to: SEC, NYSE, NACD, NASD through 07/02</p> <p>CEO gave speech to California Chamber of Commerce on 04/16/02--matrix highlighted</p> <p>Institutional investors being contacted. Meeting with CalPERS scheduled for 04/29/02</p> <p>Contacted State of Florida, NYCERS, NY State, TIAA CREF, State of Pennsylvania</p> <p>CalSTRS issued press release; CII highlighted Subcommittee agenda item in April 18th Newsletter</p> <p>CEO certification of Russell 1000 companies required on 8/14/02; 85% complied. Criteria included \$1.2 B revenue for FY; bankruptcies, extensions, reduced the number.</p>

CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	STATUS
Issue: Director Independence/Disclosure		
3) Audit Committee Qualifications		
Amend Financial Responsibility Criteria for Corporate Investments by revising Section A, 'Auditors', to include subsection 2: "All members of the Audit Committee will be persons whose past/current employment experience/education demonstrates expertise in finance and/or accounting, including being or having been a CEO or other senior executive officer with financial oversight responsibilities. The Board of Directors shall provide a written and signed statement in the annual report/proxy statement, attesting that it has determined that the members of the Audit Committee have the expertise in finance and/or accounting necessary for the execution of its oversight and monitoring duties. The Board of Directors shall attest in this statement, that the Audit Committee members can read and understand fundamental financial statements, including a company's balance sheet, income statement, and cash flow statement. The Board of Directors shall assess the adequacy of the Audit Committee on an annual basis. This report should have the same protections offered by the SEC in its "safe harbor" for the existing Executive Compensation report included in the proxy statement."	<p>Proactive communication of CalSTRS' views on importance of Audit Committee qualifications</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	<p>Guidelines amended on 04/03/02; 1,583 "no" votes cast by CalSTRS on ratification of auditors as of FY '02</p> <p>Letters sent to oversight bodies on 04/30/02</p> <p>Letters sent to: SEC, NYSE, NACD, NASD through 07/02.</p> <p>CEO gave speech to California Chamber of Commerce on 04/16/02--matrix highlighted</p> <p>Institutional investors being contacted. Meeting with CalPERS scheduled for 04/29/02</p> <p>Contacted State of Florida, NYCERS, NY State, TIAA CREF, State of Pennsylvania</p> <p>CalSTRS issued press release; CII highlighted Subcommittee agenda item in April 18th Newsletter</p> <p>CEO certification of Russell 1000 companies required on 8/14/02; 85% complied. Criteria included \$1.2 B revenue for FY; bankruptcies, extensions, reduced the number.</p>

CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	STATUS
Issue: External Auditor Independence and Disclosure		
1) Limitations on Non-Audit Services		
Amend the Financial Responsibility Criteria for Corporate Investments, Section A, 'Auditors', to include subheading 3 to read: "CalSTRS supports the limitation of non-audit services that an external auditor can provide to an audit client. If non-audit services other than taxation issues are provided and disclosed, CalSTRS may cast a negative vote against that auditor's continuance. External auditors that also have direct investments in audit clients or affiliates of audit clients will not be considered as Independent Auditors/Accountants and CalSTRS shall cast a negative vote against the auditor's selection/adoption."	<p>Proactive campaign to prohibit/restrict non-audit services to anything other than taxation issues</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p> <p>Send letters of support to Senator Sarbanes</p>	<p>Guidelines amended on 04/03/02; 1,583 "no" votes cast by CalSTRS on ratification of auditors as of FY '02</p> <p>Letters sent to oversight bodies on 04/30/02</p> <p>Letters sent to: SEC, NYSE, NACD, NASD through 07/02</p> <p>CEO gave speech to California Chamber of Commerce on 04/16/02-matrix highlighted</p> <p>Institutional investors being contacted. Meeting with CalPERS scheduled for 04/29/02</p> <p>Contacted State of Florida, NYCERS, NY State, TIAA CREF, State of Pennsylvania</p> <p>CalSTRS issued press release; CII highlighted Subcommittee agenda item in April 18th Newsletter</p> <p>CEO certification of Russell 1000 companies required on 8/14/02; 85% complied. Criteria included \$1.2 B revenue for FY; bankruptcies, extensions, reduced the number.</p> <p>Letter supporting auditor independence and accounting oversight sent to Senator Sarbanes 4/25/02 and 6/17/02</p> <p>CalSTRS policy limits firms to 7 consecutive years; legislation targets audit partners - see "Comments" box</p> <p>Public Company Accounting Oversight Board (PCAOB) created 07/02 audit firms cannot provide non-audit services to audit clients.</p>

CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	STATUS
Issue: External Auditor Independence and Disclosure		
2) Rotation of External Audit Firm, Limit Term to 7 Consecutive Years		
<p>Amend the Financial Responsibility Criteria for Corporate Investments, Section A, 'Auditors', to include subheading 4 to read: "CalSTRS supports limiting external auditor firms to seven consecutive years of audit service to portfolio companies."</p>	<p>Proactive communication of CalSTRS policy of seven-year rotation of external audit firms</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	<p>Guidelines amended on 04/03/02; 1,583 "no" votes cast by CalSTRS on ratification of auditors as of FY '02</p> <p>Letters sent to oversight bodies on 04/30/02</p> <p>Letters sent to: SEC, NYSE, NACD, NASD through 07/02.</p> <p>CEO gave speech to California Chamber of Commerce on 04/16/02- matrix highlighted</p> <p>Institutional investors being contacted. Meeting with CalPERS scheduled for 04/29/02</p> <p>Contacted State of Florida, NYCERS, NY State, TIAA CREF, State of Pennsylvania</p> <p>CalSTRS issued press release; CII highlighted Subcommittee agenda item in April 18th Newsletter</p>
<p>CEO certification of Russell 1000 companies required on 8/14/02; 85% complied. Criteria included \$1.2 B revenue for FY; bankruptcies, extensions, reduced the number.</p>		<p>CEO certification of Russell 1000 companies required on 8/14/02; 85% complied. Criteria included \$1.2 B revenue for FY; bankruptcies, extensions, reduced the number.</p> <p>Letter supporting auditor independence and accounting oversight sent to Senator Sarbanes 4/25/02.</p>

CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	STATUS
External Auditor Independence and Disclosure		
3) Cooling-Off Period Regarding Employment with Client		
Amend the Financial Responsibility Criteria for Corporate Investments, Section A, 'Auditors', to include subheading 5 to read: "CalSTRS supports a one year cooling-off period regarding the employment, as either Staff or a Member of the Board of Directors, of persons on the companies' external audit team or senior management of the external audit firm."	<p>Proactive campaign to prohibit employment by external auditor team personnel or external audit firm control persons with client for one year, in either staff or board role.</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	<p>Guidelines amended on 04/03/02; 1,583 "no" votes cast by CalSTRS on ratification of auditors</p> <p>Letters sent to oversight bodies on 04/30/02</p> <p>CEO gave speech to California Chamber of Commerce on 04/16/02-matrix highlighted</p> <p>Institutional investors being contacted. Meeting with CalPERS scheduled for 04/29/02</p> <p>CalSTRS issued press release; CII highlighted Subcommittee agenda item in April 18th Newsletter</p> <p>CEO certification of Russell 1000 companies required on 8/14/02; 85% complied. Criteria included \$1.2 B revenue for FY; bankruptcies, extensions, reduced the number.</p> <p>Letter supporting auditor independence and accounting oversight sent to Senator Sarbanes 04/25/02</p>

CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	STATUS
Accounting Standards		
1) Reform/review the Accounting Standards, especially regarding new/complex financial transactions (Special Purpose Entities or SPEs)		
Support the reform/review of accounting industry standards and accounting standards, generally. Independent industry accounting standards and transaction accounting standards are prophylactic for all investors. Independent auditors should not be advocates for audit clients; unlike other service vendors who must satisfy the client to make a sale, independent auditors occupy a unique position in our capital markets and hold a public trust. Audit work should be priced fairly, not at marginal rates, in the hopes of securing management advisory services at more profitable levels.	<p>Support CII policy and legislative/regulatory/ administrative proposals that accounting standards be updated. Seek buy-in of institutional users of financial statements, such as SEC, NYSE, NASD, investment analysts, investment managers, banks, underwriters.</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p> <p>Send letter of support to Senator Feinstein</p> <p>Send letter of support to Senator Leahy</p>	<p>CII policy regarding auditor independence supported at most recent CII meeting, March 25, 2002.</p> <p>Institutional investors being contacted; also outreach to users of financial statements.</p> <p>Letters to oversight bodies sent on 4/30/02.</p> <p>Letter sent to Senator Feinstein 4/30/02</p> <p>Letter sent to Senator Leahy on 4/26/02</p>
2) Increased disclosure standards of auditor services/revenues		
Support the increased disclosure standards relative to non-audit services. We will actively support the prohibition against all non-audit services, but without a prohibition, disclosure is a necessity for investors.	<p>Support CII, SEC, as well as other institutional investors efforts regarding the increased disclosure of auditor ties.</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	<p>Letter sent to SEC on 4/30/02. Senator Sarbanes letter also references this issue.</p> <p>Institutional investors being contacted; also outreach to users of financial statements.</p> <p>Letters to oversight bodies sent on 4/30/02.</p>